



# Arizona State Senate *Issue Brief*

November 1, 2006

## **Note to Reader:**

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Research Briefs* series, which includes the *Issue Brief*, *Background Brief* and *Issue Paper*, is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Additionally, nothing in the *Brief* should be used to draw conclusions on the legality of an issue.

## **GRADUATE MEDICAL EDUCATION**

### **INTRODUCTION**

After completing medical school, physicians enter a post-graduate phase of training known as graduate medical education (GME). GME programs prepare physicians for independent practice in a medical specialty, and focus on the development of clinical skills and professional competencies and on the acquisition of detailed factual knowledge within the chosen specialty.

GME programs are based in hospitals or other health care institutions and, in most specialties, utilize both inpatient and ambulatory settings. GME programs are usually called residency programs, and the physicians being educated by them, residents.

### **PROGRAM ACCREDITATION**

The Accreditation Council for Graduate Medical Education (ACGME) establishes educational standards for, and monitors compliance of, residency programs and institutional sponsors of GME in the United States. Accreditation is voluntary; however, programs must be ACGME-accredited in order to receive GME funds from the Medicare and Medicaid programs.

ACGME reports that it considers numerous factors when deciding whether to approve a residency program or an increase in a program, including the number of available programs, the number of patients available for the residents to treat and the number of faculty available to supervise and train residents. Therefore, the size of most residency programs is limited by whether they receive ACGME accreditation. According to the Arizona Hospital and Healthcare Association, as of January 2006, there were 1,308 approved residencies in Arizona, of which 1,150 were filled.

### **GME FUNDING**

Another factor that limits the number of residencies is the availability of funding. According to the Association of American Medical Colleges, GME is funded from both the Medicare and Medicaid programs, hospitals that conduct the residencies, public and private third-party payers' payments for patient care services,

the Department of Veterans Affairs, the Department of Defense, faculty revenues and philanthropic gifts.

### ***Types of GME Payments***

There are two main types of GME payments paid by public sources: Direct Graduate Medical Education (DGME) and Indirect Medical Education (IME). DGME payments reimburse for the tangible direct costs of operating a GME program, including compensation and benefits for residents and supervising faculty, as well as the proportion of the hospital's administrative and related costs for facility management that is attributable to the GME program. Medicare pays teaching hospitals a specified amount for these DGME costs. The Congressional Budget Office estimates that Medicare DGME payments will total \$1.9 billion in federal FY 2006-2007. In Arizona, all Medicaid GME payments to hospitals are intended to compensate for direct costs only.

The IME payment is based on the premise that, through the teaching process, hospitals with residents incur additional costs beyond resident salaries and related expenditures. Teaching hospitals typically attempt to have up-to-date technology and often serve the sickest patients. In addition, teaching increases the time it takes for patient care, which increases costs. To account for these higher costs, Medicare payments to teaching hospitals include an IME adjustment, which is a percentage increase in the hospital inpatient rates based upon the ratio of interns and residents to hospital beds. The Congressional Budget Office estimates that Medicare IME payments will be \$6.4 billion in federal FY 2006-2007.

### ***Medicare Funding Caps***

Federal law caps the number of residents Medicare supports at 1996 levels. Rural teaching hospitals are capped at 130 percent of 1996 levels. However, there are several exceptions to these caps. According to the Centers for Medicare and Medicaid Services (CMS), urban hospitals, under limited circumstances, can apply for an increase in their

cap for new residency programs, and hospitals in rural areas may receive an increase to their FTE caps for any newly approved programs. Hospitals may train more residents than the caps, but they will not receive additional Medicare payments for the residents. Therefore, without CMS approval, funding to increase residencies must come from sources other than Medicare.

### ***State Funding***

Arizona currently funds GME programs through the Arizona Health Care Cost Containment System (AHCCCS). Historically, AHCCCS has used Medicaid funding to make DGME payments to residency programs established and approved by AHCCCS on or before October 1, 1999.

In FY 2006-2007, state appropriations for GME were increased and modified as part of an effort to increase the number of physicians practicing in Arizona (Laws 2006, Chapter 331).<sup>1</sup>

Monies available for residency programs that were established and approved by AHCCCS by October 1, 1999, are limited to the FY 2005-2006 appropriation, adjusted annually by a hospital inflation figure. In addition, Chapter 331 appropriated \$4 million in state funds and \$8 million in federal Medicaid monies for specified new and expanded GME programs

Finally, the legislation established a \$1 million Hospital Loan Program for loans to fund start-up and ongoing costs for allopathic and osteopathic residency programs in accredited hospitals. AHCCCS provides interest-free loans of up to \$500,000 annually for one hospital per county if the hospital: 1) establishes a new

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<sup>1</sup> According to the Arizona Physician Workforce Study (Study), which was conducted by the University of Arizona Health Sciences Center and the W.P. Carey School of Business at Arizona State University, the site of a physician's residency training is a major influence on the physician's choice of a location for his or her practice. The Study reports that in 1992, 59 percent of Arizona resident survey respondents indicated they would practice in Arizona after completing their residencies. Therefore, if the number of residencies in the state increases, the number of physicians in the state may also increase.

program that includes at least six residents or 2) adds a new specialty area with at least four new residents to an existing program. Loans are prioritized first for hospitals in counties with populations of less than 500,000 persons that submit applications on or before September 1, 2007; after that date, hospitals in any county are eligible.

The table below details current AHCCCS GME spending.

### **ARIZONA MEDICAL EDUCATION CONSORTIUM**

The Arizona Medical Education Consortium (AzMEC) was formed in 2003 to improve graduate medical education opportunities in Arizona. Working with Arizona teaching hospitals and the University of Arizona College of Medicine, AzMEC reports that it assists organizations in competing for the most qualified students, keeps members up to date with changes in accreditation requirements and GME financing, provides a forum for discussion of GME issues and educates the community about the benefits of GME.

#### **FY 2006-2007 Arizona Graduate Medical Education Appropriations**

|  | <u>State Funding</u> | <u>Federal<br/>Medicaid<br/>Funding</u> | <u>Total<br/>Funding</u> |
|--|----------------------|---|--------------------------|
| Programs Established Before<br>October 1, 1999 <sup>1/</sup> | \$ 7,519,800         | \$14,993,000                            | \$22,512,800             |
| New or Expanded GME Programs <sup>2/</sup>                   | 4,000,000            | 8,000,000                               | 12,000,000               |
| Hospital Loans   | <u>1,000,000</u>     | <u>-0-</u>                              | <u>1,000,000</u>         |
| <b>Total</b>   | <b>\$12,519,800</b>  | <b>\$22,993,000</b>                     | <b>\$35,512,800</b>      |

1/ Statute limits funding for these programs to the FY 2005-2006 levels, adjusted for inflation, unless the programs expand.

2/ Statute prioritizes FY 2006-2007 funding and any other future appropriations for new and expanded programs as follows: a) expansion of programs established before July 1, 2006, at hospitals that do not receive existing GME funding; b) expansion of programs established on or before October 1, 1999; and c) programs established on or after July 1, 2006.

### **ADDITIONAL RESOURCES**

- “An Arizona Policy Primer: Graduate Medical Education,” St. Luke’s Health Initiatives, January 2003  
[http://www.slhi.org/publications/policy\\_primers/pdfs/pp-2003-01.pdf](http://www.slhi.org/publications/policy_primers/pdfs/pp-2003-01.pdf)
- Accreditation Council for Graduate Medical Education  
[www.acgme.org](http://www.acgme.org)
- Association of American Medical Colleges  
[www.aamc.org](http://www.aamc.org)
- Council on Graduate Medical Education  
<http://www.cogme.gov/>
- Arizona Medical Education Consortium  
<http://www.ahsc.arizona.edu/azmec/>